Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Implementation of the	)	**DA 02-2381**
Pay Telephone Reclassification	)	**RM No. 10568**
and Compensation Provisions of	)	
The Telecommunications Act of 1996	)	

WORLDCOM, INC.
COMMENTS ON APCC AND RBOC COALITION PETITIONS FOR RULEMAKING

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I. EXECUTIVE SUMMARY

The Commission should open a Notice of Inquiry into the current state of the payphone market. The Notice of Inquiry should ask parties to provide data, and comment, on whether the removal of payphones has denied members of the public the ability to make calls while away from home, and to what extent this has been the case. The NOI should inquire about the demographic characteristics and geographic location of those consumers who claim to have been denied the ability to make calls away from home.

The Joint Board on Universal Service recently rejected the need for additional payments to payphone service providers (PSPs) to compensate for declines in profitability due to competitive forces, calling such broad payments unnecessary subsidies. Instead, the Joint Board recommended the Commission open a NOI to determine whether states have the resources to handle possible increases in the number of requests for public interest payphones. Now is the time for that inquiry. Petitioners provide no evidence that a single person has been denied the ability to make a call from a payphone, yet they ask the Commission to double the dial-around compensation rate immediately, and inform the Commission they will need additional rate increases within a few years. If fulfilled, their request would begin a cycle of accelerating declines in payphone demand, coupled with accelerating increases in dial-around compensation. Before the Commission embarks on this policy path, it must determine not only whether some consumers are unable to make calls from payphones, but whether the unmet need is (or will soon be) so large that targeted subsidies in the form of expanded public interest payphone programs would be inefficient and uneconomical.

Congress left it to the Commission's discretion to determine what is meant by the widespread deployment of payphones. As affordable substitutes for payphones increase, the number of payphones that would be considered to constitute widespread deployment will decline. When Congress passed Section 276 of the 1996 Act, affordable substitutes for payphones were limited. Today they are widespread. New technologies and services such as prepaid disposable wireless phones may further significantly reduce the number of payphones that can be removed without causing the public's need to make calls away from home to go unmet. The NOI should fully examine the number and affordability of payphone substitutes.

Increased revenue opportunities from unregulated payphone services also reduce the amount of revenues PSPs must earn from coin and dial around services in order to maintain a payphone in service. Payphone providers may increase revenues by improving the quality of basic payphone service. They may also substantially increase revenues by offering consumers Internet access and businesses locations for targeted advertising. The NOI should examine the revenue opportunities available to PSPs and determine its potential impact on the supply of payphones.

Finally, the Commission should consider whether a different cost model is more appropriate for existing market conditions. The Commission's original model validated the business plans of the largest PSPs. It accepted at face value the optimistic expansion plans of the time and fully funded the investments PSPs had recently made in phones, buildings, fleet vehicles and in-house personnel. Today, a new entrant can purchase phones and other equipment at deep discounts on the second-hand market. A new entrant can also rely on unaffiliated contractors who will install and manage all aspects of ongoing business operations. Thus, a new entrant would not need to purchase land, buildings, fleet vehicles and other assets and would be able to supply service to marginal locations for significantly less than incumbent PSPs weighed down with overvalued embedded assets.

Once the Commission has allowed the public to provide information responding to these and other relevant questions, it will be in a position to open a fully informed Notice of Proposed Rulemaking on its own motion if it determines that such a rulemaking is warranted. In light of the failure of Petitioners to document complaints from consumers claiming to be unable to make calls away from home, there is very little risk the public will be harmed if the Commission takes the time to understand the current payphone market and its substitutes. On the other hand, rushing into the restricted rulemaking proposed by Petitioners would run a very real risk of accelerating rate increases and reductions in demand, a result that would harm all players.

II. INTRODUCTION

WorldCom takes this opportunity to comment on Petitions for Rulemakings by the American Public Communications Council (APCC) and the RBOC Payphone Coalition (RPC) to consider increasing the dial-around compensation rate from $.24 to $.484 and $.49 respectively.[1] Both representatives of payphone service providers (PSPs) estimate that call volumes for both coin and coinless calls at marginal payphone locations have declined approximately 50% since 1998, while the costs of purchasing, installing, and maintaining a payphone have remained essentially unchanged.[2] The result, they maintain, has been a decline in profitability and the removal of somewhere between 11% and 22% of payphones since 1998.[3]

The PSPs attribute this estimated decline in usage solely to the increasing numbers of wireless subscribers.[4] Were the Commission to simply insert their estimated call volume into the formula it used to set the current $.24 rate, the dial-around compensation rate would more than double. RPC asserts that the Commission must insert their estimated call volumes into the current rate-setting formula in order to fulfill Congress' intent for the Commission to establish a compensation regime that would fairly compensate them and ensure the widespread deployment

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[1] Request That The Commission Issue A Notice Of Proposed Rulemaking Or In The Alternative, Petition For Rulemaking, APCC, August 29, 2002; Petition For Rulemaking, RPC, September 4, 2002.

[2] RPC Attachment at 12; APCC Attachment 1 at 13; and Third Report and Order, and Order on Reconsideration of the Second Report and Order ("Third Payphone Order"), CC Docket No. 96-128, Rel. February 4, 1999 at & 147.

[3] RPC Petition at 4, APCC Petition at 8.

[4] RPC Petition at 1, APCC Petition at 8.

of payphone services.[5] APCC asserts that unless the Commission doubles the payphone compensation rate, the volume of payphones will continue to decline and the public's need to make calls away from home will go unmet.[6] Finally, RPC cautions the Commission that doubling the dial around compensation rate will only partially restore profitability for "a couple of years."[7] The Commission should expect similarly large requests for rate increases in the near future.

III. A NOTICE OF INQUIRY IS REQUIRED TO AID THE ADOPTION OF POLICIES THAT WILL RATIONALLY ENSURE THE WIDESPREAD AVAILABILITY OF PAYPHONES IN CURRENT MARKET CONDITIONS

A. PSP Proposals Would Place The Commission On An Irrational Policy Path

The PSPs' petitions are rife with unsupported and unexamined assertions. Chief among them is the assertion that the reduction in payphones since 1998 has denied the public the ability to make calls from payphones. PSPs also fail to examine a host of other important issues, including: whether payphone use has declined as a result of poor quality of service; whether wireless substitution will continue at the same pace as occurred between 1998-2001; whether current market conditions have altered the rational level at which payphone deployment meets the public's need; whether current market conditions have rendered the existing compensation methodology inappropriate; and the extent to which additional revenue sources will help sustain the deployment of payphones.

Simply increasing rates in response to declines at marginal locations in order to maintain the 1998 level of payphone deployment, or even the current supply of payphones, in the belief

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[5] RPC Petition at 2,6; APCC Petition at 11.

[6] APCC Petition at 5.

that Section 276(b) requires this, would not be a rational policy decision, a proper interpretation of Congressional intent, or a proper exercise of Commission discretion. Choosing this policy response path would result in rates increasing from $.24 to $1.92 (an 8-fold increase) within 6 years if current usage trends continue and payphones are not appropriately removed from service. It could flood the market with payphones at locations where they are not needed. It could dramatically increase the incentive to engage in fraudulent dialing activities. It could accelerate the substitution of wireless calling for payphone use, accelerate usage reductions, accelerate rate increases, and unleash widespread requests for interexchange carriers (IXCs) to block calls made from payphones. At this point, dial-around usage would be zero, and the revenues of subscribers to 800 number services and prepaid card providers would be significantly diminished. PSPs would then accelerate their recent increase in coin rates until coin usage dropped toward zero.

If the Commission still adhered to the PSP's rigid interpretation of Section 276(b), it would then be required to fully subsidize every payphone in the country. PSPs may respond that the Commission would modify its rate setting methodology and alter the socially desirable level of payphone deployment before events progressed this far. Before the Commission even goes part-way down this irrational policy path, it is imperative for it to have received public comment on the questions PSPs' Petitions have left unexamined. A Notice of Inquiry is the appropriate vehicle for this endeavor. Once the Commission has gathered the available data, policy alternatives, and analyses, it will be in a position to open a fully informed Notice of Proposed Rulemaking on its own motion if it determines that such a rulemaking is warranted. Below,

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[7] RPC Petition at 6.

WorldCom proposes some of the questions and issues the Commission should include in its Notice of Inquiry (NOI).

B. The Commission Should Inquire About The Extent To Which The Public Has Been Denied The Ability To Make Calls From Payphones

APCC asserts that once a payphone is removed, consumers who would have used that payphone are unable find another payphone within a reasonable distance.[8] APCC fails to submit any meaningful data to substantiate this claim. APCC fails to tell us where payphones have been removed and whether anyone has been denied the ability to make a call from a payphone as a result of payphones being removed. APCC provides one table showing the number of payphones per square mile in each state.[9] The table shows that many states have very low payphone densities. For example, Wyoming has one payphone every 25 miles. APCC concludes that "[b]ecause payphones are already few and far between in those rural areas, the removal of even a single payphone can have devastating consequences for the less affluent members of a community."[10] APCC's analysis suggests that the poor in Wyoming will have to drive 25 miles if a single payphone is removed. APCC's data however, assumes that payphones are uniformly distributed throughout the state. If this were the case in a state such as Wyoming, where large stretches of land are uninhabited, most payphones would have been placed for the sole benefit of coyotes and jack rabbits.

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[8] "…the removed payphone could be the only payphone within several blocks, or miles." APCC Petition at 5.

[9] APCC Petition, Attachment 10.

[10] APCC Petition at 7.

Payphones obviously have not been distributed evenly throughout each state. Rather, in the competitive marketplace unleashed by the Commission in 1996, they have been primarily placed in locations where there are other payphones. APCC's observation that "…at the payphone bank in the lobby at the Commission's offices, there are backplates for nine payphones, yet only five payphones are installed," confirms the truth that when a payphone is removed from service, the remaining payphones will continue to provide service and will benefit higher call volumes and increased profitability as a result of the removal of nearby payphones.

In order for the removal of a payphone to result in the public being denied the ability to make a payphone call, it must satisfy a crucial part of the definition of a public interest payphone, namely that it be the only payphone in a location prior to its removal.[11] Based on a preliminary survey of state public interest payphone programs, the Commission stated in 1996 that many states had already developed systems to determine whether the ability to call from a payphone was being denied to the public.[12] The Commission required states to review and report by the end of 1998 whether they had adequately provided for the ability of the public to make calls from payphones.[13] By the end of 1998, nine states established programs to fund the placement of payphones at approved locations that would not otherwise have one,[14] and three

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[11] Jt. Explanatory Statement of the Committee of Conference, House Rpt. 104-458, 104th Congress; 2nd Session, 104 H. Rpt. 458 (1996), ("Conference Report").

[12] Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128, Report and Order ("First Payphone Order"), Released September 20, 1996, & 278.

[13] Id., & 285.

[14] Alaska, California, Indiana, Louisiana, Michigan, Nebraska, New Hampshire, New York, and Wisconsin.

states required local exchange companies to maintain one payphone in each exchange.[15] The remaining states determined that market forces were able to supply payphones to the proper locations so that the public would be able to make payphone calls.

Twelve states already have programs in place they claim will ensure the availability of payphones. The other states have relied on market forces to ensure an adequate payphone supply to needed locations. Market forces will probably be sufficient to ensure an adequate payphone supply to needed locations even in the face of declining numbers of payphones. In most cases, other payphones remain nearby when some are removed. The result will be increased volume and increased profitability for the remaining payphones. Left alone, market forces operating to remove payphones will bring most payphone volumes up to profitable levels without jeopardizing the public's ability to make calls from payphones. There may be locations however, where a payphone is removed but there are no other payphones reasonably nearby. The Commission should determine to what extent this has been the case. The Commission should request State public utility commissions (PUCs) and other parties to answer the following questions:

1. How many requests state commissions received during the last two years for payphones to be placed in locations where other payphones are not located reasonably nearby?

2. What were the locations where an unmet need for payphones was alleged?

3. What demographic information is available in reference to these locations?

4. What was the resolution of these requests for additional payphones?

5. Is there a need for states with public payphone programs to modify their programs?

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[15] Arkansas, Kentucky, and West Virginia.

6. Is there a need for states without public payphone programs to adopt such a program?

7. Do states have the necessary resources to manage public interest payphone programs?

8. What outreach have states with public interest payphone programs undertaken to advertise their availability?

9. How much outreach should public interest payphone programs receive?

The Commission might also ask parties to provide information linking the number of payphones in each zip code to income and other relevant demographic characteristics. (Payphone ANIs can be linked to zip codes, which in turn can be linked to Census Bureau demographic data). Payphones are not necessarily being removed from low-income areas. These areas may be the most profitable locations.[16]

The Commission will be able to make rational decisions with regard to public interest payphones once it has gathered this information. For example, if the number of complaints about the absence of payphones has remained unchanged since 1998, the Commission may conclude with confidence that the market and existing public interest payphone mechanisms continue to ensure the widespread deployment of payphones. On the other hand, if the number of such complaints has substantially increased since 1998, the Commission might direct states to establish public interest payphone programs if the number of complaints exceeds a certain

[16] "The most popular phones continue to be in urban and low-income spots, so even when a neighborhood tries to get rid of a phone – as neighborhoods sometimes do, out of concern about drug dealing – the phone company will do everything possible to keep that phone in place…" APCC Petition, Attachment 2 at 26.

threshold level per exchange.[17] Other policy responses will become evident once the Commission has gathered the relevant data.

C. The Commission Should Inquire Into What Is A Reasonable Number Of Payphones In Light Of Available And Emerging Substitutes For Payphones

Payphone market conditions have significantly changed since 1998. As APCC notes, the advent of flat rate wireless plans has brought the incremental charge for a wireless call to zero, making it a more attractive method of calling away from home than payphones for 45% of the population.[18] This preference for wireless calling has caused the number of payphones to decline between 11% and 22% since 1998 according to Petitioners.

Petitioners assert that Section 276(b) requires the Commission to reverse this decline and maintain the number of payphones in operation at the time it adopted the Third Payphone Order (1998) in perpetuity.[19] The opposite is actually the case. In its Third Payphone Order the Commission stated that setting the rate at $.24 would provide fair compensation for the majority of payphones, but it recognized that "…decreasing prices for cellular and PCS, may reduce the number of payphones. Such a reduction in the number of payphones would be the result of a competitive marketplace."[20] Far from being an outcome the Commission feared, as RPC maintains,[21] the Commission viewed the reduction in payphones due to the growth of

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[17] This would not mean the Commission would require establishing each request as a funded PIP, only that it have a PIP option available under certain conditions.

[18] APCC Petition at 5, 8 fn.14.

[19] RPC Petition at 4, APCC Petition at 8.

[20] Third Payphone Order at &143, fn 282.

[21] RPC Petition at 4.

competitive alternatives as a legitimate reduction in the number of payphones, one that States could address through authority delegated to them by the Commission. By delegating to states the authority to address the impact of the reduction in payphones due to competition, the Commission made clear that it would not entertain changing the default rate as a result of legitimate competition.[22]

The Joint Board on Universal Service just recently came to the same conclusion. In the proceeding where it examined whether new services ought to be added to the definition of services supported by universal service, the Joint Board acknowledged the decline in payphones since 1998 and yet concluded that any increased payment directed broadly to most payphones would merely represent a windfall to the payphone industry.[23] The Joint Board further stated that public interest payphones were the appropriate vehicle to respond to the public's need for continued access to payphones in light of declining payphones due to competitive alternatives. The Joint Board recommended that the Commission initiate a Notice of Inquiry to determine the ability of States to establish and manage public interest payphone programs.[24] Now is the time for that inquiry.

Nor did Congress speak to the level of payphones that would constitute "widespread deployment."[25] Congress left this to the Commission's discretion. There is nothing special

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[22] In contrast, a cost element for bad debt, might be an appropriate reason to modify the default rate, since the Commission has indicated it refrained from including this element for lack of reliable data at the time of the Third Payphone Order.

[23] Federal-State Joint Board On Universal Service, Recommend Decision, CC Docket 96-45, Rel. July 10, 2002, &50.

[24] Id., &50.

[25] 47 U.S.C. э 276(b).

about the number of payphones in 1998, other than this is about the time they reached their peak before competition from wireless became prevalent. In passing the 1996 Act, Congress intended to promote all forms of competition, including competition to payphone service, even if this competition reduced the number of payphones.

The Commission need not calculate a socially desirable level of payphones with mathematical precision. The market, combined with state-administered public interest payphone programs, should be able to determine an appropriate level of supply. Nevertheless, it would assist states as they consider the need for, or reconsider the specifics of their, public interest payphone programs if the Commission were to have up-to-date information on the availability and affordability of current and emerging substitutes for payphones. The Commission's review of these State efforts would benefit equally from this inquiry. For example, Hop-On Wireless, intends to make prepaid, disposable wireless phones available at a price of $30 for 60 minutes of air time.[26] The phone would be an affordable substitute for payphones for low-income households, for as with payphones, "…a user does not need to make an upfront investment in equipment, await order processing and credit checks, or pay recurring monthly charges."[27] One would expect a much lower level of payphones to be acceptable if prepaid, disposable, wireless devices become widely available. The Commission should therefore seek information about the substitutability and affordability of alternatives to payphones:

10. What close substitutes to payphones are currently available? What close substitutes are expected in the next year or two?

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[26] *See*, Attachment 1, *Disposable Cell Phones To Hit Stores*. See also, http://www.hop-on.com/.

[27] APCC Petition at 3.

11. How many subscribers does each have or expect to have? How many minutes of use does each generate or expect to generate?

12. What are the various rate plans? What are the non-recurring costs to customers? How affordable a substitute is each alternative for low-income persons?

13. What will be the geographic availability of each alternative?

D. The Commission Should Inquire Into The Legitimate Steps Payphone Providers May Take To Stimulate Usage And Profitability

While most of the decline in payphone usage is undoubtedly the result of consumers switching to wireless devices, some is due to poor quality of service.[28] Payphone owners may not convince wireless subscribers to abandon their cell phones, but they could increase the volume of calls by making repairs more quickly, keeping their payphones cleaner, keeping them well lit, and keeping rate and complaint contact information more visible and current. Revenues would increase if they improved the quality of basic payphone service.

Payphone providers are also seeking revenue from non-basic, unregulated, payphone services. There may be substantial advertising revenues available from treating payphones as mini-billboards, some of them electronic. Many marginal payphone locations are on the street in dense urban areas, and so are ideal locations for advertising. Payphone providers who locate at these marginal locations have been granted nearly free use of a valuable, scarce, public

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[28] *See*, Attachment 2, *Payphone Business Killed Itself*, Post-Newsweek Business Information, Inc. Newsbytes, Jeff Kagan, February 13, 2001. "Can we blame the demise of the payphone business on cellphones and new wireless devices? Sure that's part of it....If they (*PSPs*) had more respect for customers, and actually took care of customers instead of abusing them, perhaps they'd still be a viable communications alternative, instead of the choice of last resort." See also, Attachment 3, *Fewer Broken Phones At 25 Top Subway Stations, Survey Finds Still, Nearly One In Five Subway Phones Don't Work,* NY PIRG's Straphangers Campaign, December 18, 2000.

resource.[29] They are now preparing to capitalize on this grant.[30] Payphone owners are also exploring revenue opportunities available from providing Internet access from their payphones.[31] Finally, payphone owners earn additional revenues to the extent the coin rate is above the dial-around compensation rate.

14. The Commission should ask parties to comment on the extent to which revenues would increase if payphone providers improved the quality of basic payphone service.

15. The Commission should ask parties to comment on the sources of unregulated revenue opportunities and comment on the potential revenue contribution from unregulated services.

When a rate-regulated entity is allowed to provide unregulated services, it has an incentive to utilize regulated resources to provide unregulated services. Allocation of joint and common costs is relatively easy when the regulated and unregulated services are relatively homogeneous because the two services are generating relatively identical types of costs per call. Thus, the Commission concluded that maintenance costs for coin and dial-around services were joint and common and would be allocated equally per coin and coinless call.[32] The advent of

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[29] Costs are equal to the cost of a license to become certified as a payphone service provider, a fee of $100 per year per company. See for example, http://www.cis.state.mi.us/mpsc/comm/faq.htm, http://www.dcpsc.org/ci/pp/pprls/PayTelphoneRules.pdf,

[30] *See* Attachment 4, *Verizon Rings Up Deal For Payphone Ads*, See also, *Slide Show on Advertising Revenues,* American Public Communications Counsel Services, http://www.apccsideas.com/Documents/Advertising_files/, and *Southern Company Payphone Advertising*, http://www.stc1.com/serv02.htm.

[31] *See* Attachment 5, *PayStar Signs LOI With NW Pay Telephone and Multimedia Company*, February 26, 2001; *Elcotel Secures Universal Presence At JFK And LaGuardia Airports With 600 Grapevine Terminals, New Media For Advertisers To Reach Travelers*; and APCC Petition at 5.

[32] Third Payphone Order at & 175.

Internet, advertising, and other unregulated services being offered from payphones though, raises the likelihood that unregulated services are generating costs that should not be allocated equally to regulated and unregulated services. The Notice of Inquiry should examine this issue. The Commission should ask parties to comment on what policies will best protect customers of regulated services (i.e. IXCs and their customers) from subsidizing PSP unregulated activities, while at the same time encouraging PSPs to seek additional unregulated revenues.

16. What types of costs are being caused by new, unregulated payphone services?
17. What impact might they have on different cost categories such as capital expense, maintenance and overhead?
18. Should the Commission reduce regulated PSP revenue requirements by allocating an appropriate share of joint and common costs to unregulated services?
19. What cost allocation mechanisms should be employed?
20. Should the Commission consider requiring PSPs to establish structurally separate affiliates, or would non-structural separation be more appropriate?
21. Should the Commission attribute a share of unregulated revenues to regulated revenues in recognition of the benefit that came to unregulated services by the association with the regulated entity?[33]
22. What allocation rules should be used to attribute unregulated revenues to regulated purposes in order to reduce regulated revenue requirements?
23. How might the Commission value the "location benefit" PSPs have been granted by local franchise authorities upon paying a minimal license fee?

The time is also ripe for the Commission to inquire into the extent to which PSPs engage in the illegitimate pursuit of revenues. WorldCom regularly identifies a significant amount of fraudulent dialing, which may arise from autodialing to bogus 800 numbers or leasing a

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[33] RPC adopts this method by reducing revenue requirements by the extent of advertising revenues. See RPC Petition at &14.

payphone access line and connecting it to equipment other than a payphone. The Commission's Fourth Order on Reconsideration provides a new opportunity for defrauding consumers.[34] The Order allows PSPs to collect dial-around compensation revenues from carriers even if the payphone is broken and does not generate any completed calls, so long as the PSP leases a payphone access line from a local exchange carrier. In this case, the payphone would appear as a valid payphone ANI, but would not generate payphone-specific coding digits. Each such payphone would be entitled to collect $35.22 each month from carriers and their customers.[35] PSPs in dense, urban areas would have an incentive to engage in this sort of practice. They could avoid most maintenance costs, use their phone to generate substantial advertising revenue and still be compensated as if it were generating 148 calls each month. The following questions should be included in the NOI:

24. What is the extent of payphone fraud experienced by carriers and their customers?

25. Should the Commission grant Sprint's petition requesting permission to withhold compensation to all phones owned by a PSP if the PSP has engaged in fraud at even one phone?[36]

26. Should the Commission require transmission of payphone specific coding digits in order for a payphone ANI to be eligible for compensation?

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[34] 47 C.F.R.. э 64.1301(e).

[35] Fifth Order on Reconsideration and Order on Remand ("Fifth Reconsideration Order"), CC Docket No. 96-128, Rel. October 23, 2002, & 33.

[36] Petition of Sprint Corp for Declaratory Ruling Relating to Eligibility for Payphone Compensation, FCC File No. NSD-L-98-118, August 21, 1998.

E. The Commission Should Inquire Into Methodologies To Recover Basic Payphone Costs That Are Rational In Light Of Current Market Conditions

APCC and RPC develop estimates of the average cost of making a phone call using essentially the same cost model as the Commission employed in its Third Payphone Order. That cost model relied on the market cost of a new basic pay telephone, and self-reported overhead and maintenance costs. The Commission accepted at face value the inventory levels, fleet levels, land purchases, other assets, as well as maintenance and general overhead costs reported by several PSPs. The model therefore accepted and fully funded the business plans of PSPs as they existed immediately after the passage of the 1996 Act, the period of the greatest expansion and revenue growth the industry has seen.

Market conditions are dramatically different today. Today there are approximately 400,000 payphones that have been removed from service since the peak. Most of these phones are sitting in inventory and have lost much of their market value. The same conditions exist for fleets and other fixed assets. Many independent payphone installation contractors are under-employed and able to offer installation services at significant discounts. It is no longer appropriate to set rates to fully reimburse PSPs for all the assets on their books, or for all the personnel on their payrolls. Davel, the largest independent payphone company, reflects how current market conditions have drastically lowered costs. It recently reported that direct net costs, consisting primarily of telephone charges, commissions, service, maintenance and network costs decreased 31.1% from the previous year (2001). Sales, general and administrative expenses declined 37.5% from the previous year.[37]

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[37] Attachment 6, *Davel Communications Reports Second Quarter Results*, http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=105&STORY=/www/story/08-14-2002/0001783700.

WorldCom does not believe it is necessary to set a new default rate. In a declining market, the equilibrium level of payphone supply will best be achieved by allowing PSPs to determine which payphone removals will least painfully make their remaining phones most profitable. However, if the Commission were to consider changing the default rate, the model the Commission uses should no longer err on the side of increasing deployment, which was the rationale behind the Commission's reliance upon the marginal payphone location.[38] For the same reason, the new model should no longer strive to reproduce the historic level of asset costs, staffing levels and inventory levels. It appears to be the case that the data relied upon by RPC and APCC were developed on the assumption that all historic assets should be fully reimbursed, since they maintain that the cost of providing, installing and maintaining a payphone is essentially the same as it was in 1998.[39] In fact RPC's filing does not provide data on the asset values of RBOC PSP payphones, buildings, fleets, etc. Instead, it reports the asset value data Peoples and Davel reported in 1998. Neither PSP's data comes close to the greater than 30% annual decline in costs reported by Davel. The Commission should call for comments on cost methodologies that capture the ongoing devaluation of assets and reduction in labor costs due to the inroads made by wireless calling. A variety of forward looking perspectives and issues should be considered:

27. Is the use of average call volumes an appropriate method of bringing the supply of payphones to a new equilibrium level in an orderly fashion? The Commission's first payphone cost model purposely erred on the side of allowing PSPs to over-recover their costs on average. This bias may have been appropriate at the time, but given the

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[38] Third Payphone Order at & 141.

[39] The Commission determined monthly costs in 1998 to be $100.21 (minus Flex ANI Costs). APCC maintains costs have increased to $107.32, while RPC's assumptions produce a monthly cost of $94.67.

large inroads wireless calling has made, and the even larger inroads that may occur once affordable, prepaid disposable wireless phones become widely available, the new model should err on the side of encouraging a reduction in the supply of payphones. At a minimum, the model should remain neutral with regard to the expansion or contraction of payphone supply. Using average call volumes would be a call volume estimate that would be neutral with regard to the expansion or contraction of the supply of payphones.

28. Should the Commission use a model which estimates the cost of a new entrant to provide service to a marginal payphone location? The Commission's original model validated the business plans of the largest PSPs. It accepted at face value the optimistic expansion plans of the time and fully funded them. In actuality, it did not model the cost of supplying payphone service to a marginal location. Rather, it modeled the average cost of, what is now revealed as, the overly optimistic business plans of PSPs. Today, a new entrant can purchase phones, locks, masts, enclosures and other parts at deep discounts on the second-hand market. A new entrant can rely on unaffiliated payphone services companies who will install and manage all aspects of ongoing business operations so that it would not need to purchase land, buildings, fleet vehicles and other assets or maintain anything but the most limited payroll. One prices list shows installation, along with pedestal and enclosure to be approximately \$500, before volume discounts. [40] In contrast the Commission's Third Report and Order validated embedded asset levels at 1,363 per phone.[41] The same price list also shows that a PSP may farm out all maintenance and overhead expenses for as little as \$13 a month with volume discounts, but no more than \$22 per month per phone. In contrast, in-house provision of maintenance and overhead functions was reimbursed at \$38.52 per phone per month.[42]

29. Is the adoption of a recurring cost model appropriate for current industry conditions? Such a model would reimburse PSPs for recurring costs, and would allow payphones to be maintained until they are physically depreciated. It would not reimburse PSPs to the level they would be able to make investments in new payphones.

30. Would this model help bring the supply of payphones down to the lower equilibrium level of supply demanded by current market conditions in an orderly fashion? How long would it be appropriate to rely on this model?

31. What impact will the Commission's decision to make first facilities-based carriers responsible for making payments for their resellers have on the proper valuation of

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[40] Attachment 7, Toll Call Services Price List, http://www.epayphones.net/Instencprice.htm.

[41] Third Payphone Order, & 169.

[42] Id., at &177, & 179.

bad debt?

32. What impact will PSP petitions to reduce payphone access line charges to levels determined by the Commission's TELRIC methodology have on the forward looking estimate of line costs?[43] Pay telephone associations have petitions pending in at least 8 states to reduce payphone access charges to forward looking levels.[44]

IV. CONCLUSION

The Commission should open a Notice of Inquiry into the current state of the payphone market. Once the public has responded to the questions posed in the NOI, the Commission will be in a position to open a fully informed Notice of Proposed Rulemaking on its own motion if it determines that such a rulemaking is warranted. In light of the failure of Petitioners to document complaints from consumers claiming to be unable to make calls away from home, there is very little risk the public will be harmed if the Commission takes the time to understand the current payphone market and its substitutes. On the other hand, rushing into the rulemaking proposed by Petitioners would run a very real risk of creating a cycle of accelerating rate increases and reductions in demand, a result which would harm all players.

Sincerely,

Larry Fenster

Larry Fenster
1133 19th St., NW
Washington, DC 20036
202-736-6513

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[43] In the Matter of Wisconsin Public Service Commission; Order Directing Filings, CCB/CPD No. 00-01, Memorandum Opinion and Order, FCC 02-05 42, (rel. January 31, 2002) ("Wisconsin Order").

[44] Michigan, North Carolina, Virginia, Tennessee, Ohio, Missouri, Kansas and Indiana.

Statement of Verification

I have read the foregoing and, to the best of my knowledge, information and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct.

Executed on October 30, 2002

Larry Fenster

Larry Fenster

1133 19th St., NW
Washington, DC 20036
202-736-6513

ATTACHMENT 1

Disposable Cell Phones To Hit Stores

In a survey conducted by CNN.com, it found that 26 percent of the 23,138 people who took part in its 'Quick Vote' (as of August 1, 2002) said they would purchase a disposable cell phone. Forty-four percent said they will not and another 30 percent said they would in certain circumstances. These should be positive results to Hop-On.com, Inc, a pioneer in manufacturing disposable mobile phones for the US market.

The company has been given the green light to sell its phones nationwide by the US Federal Communications Commission for phones. And Hop-On will do that within the next three months, beginning with Southern California, said chairman and CEO, Peter Michaels, to Reuters. He added that the company aims to "sell millions of phones by Christmas".

For a flat fee of US$40, consumers are able to have a talk time of 60 minutes. And like with any prepaid services, consumers can pay for additional talk time of up to 120 minutes by purchasing Hop-On Chat Cards. Added calling minutes can be used anywhere within the US without roaming or long-distance charges.

The Hop-On cell phone, made with a low-cost Philips Electronics chipset, comes equipped with an earbud/microphone for safe hands-free operation, one-touch emergency button and a rechargeable battery and battery charger for extended talk time.

If the consumers choose to have the phone recycled after 120 minutes is up, they will get a rebate US$5 back. This method allows Hop-On to save on additional manufacturing costs incurred from having to produce new phones. This is in-line with its strategy to make the cell phones as inexpensive as possible and allow consumers to purchase their own airtime.

Michaels has also told Reuters that the company will further cut costs by doing away with the extra memory needed for advanced data features focusing only on the basic functions of what a phone is supposed to do - make and receive voice calls. For the numbers dialed, the company will make use of an audio playback instead of liquid crystal displays.

Hop-On also has plans to market a less expensive model, priced at US$29, in Europe and eventually the US. This phone, however, will be based on the international GSM standard instead.

August 1, 2002

ATTACHMENT 2

Payphone Business Killed Itself

Jeff Kagan

Newsbytes
February 13, 2001, Tuesday

COMMENTARY. The Payphone business is dying. BellSouth is just the latest big brand name to announce they were exiting the business. Many people blame the cellphone in the old "asteroid causing the dinosaurs to become extinct" analogy. As much as the cellphone industry would like to take credit for being that all-powerful, I think the payphone business itself is just as much to blame. They are killing themselves.

Remember in those quieter, pre-cellphone days or the early 1980's? We all used payphones like they were going out of style. They were everywhere, and usually worked. The anyplace, anytime communications of the wired world.

Then the business was deregulated. New service providers popped up on the scene. So did cheaper, less reliable phones. Phones were still everywhere, but increasingly they were out of order or at best, poor quality. Customers started losing money in phones that didn't work, and getting a refund from the new service providers was nearly impossible.

Costs of payphone service spun out of control. Service providers charged obscene rates and often customers didn't even know how much they were getting ripped off till they got their phone bill months later.

To make matters worse, the phones themselves were dirty, crusty, germ covered things nobody wanted to touch with a ten-foot pole.

This isn't ancient history either. Ever visit a payphone lately?

Sure there are still quality service providers like BellSouth, Verizon, Qwest, SBC and many of the other local phone companies, but the entrepreneurial newcomers didn't have the same respect for the customer. Bottom line the payphone experience deteriorated to a point where customers would just assume do anything else other than use payphones.

While the payphone industry was busy shooting itself in the foot like they didn't have a care in the world, technology snuck up and bit them in the fanny.

First it was cellphones. They were expensive in the 1980's, but in recent years have become so cheap that in a nation of 250 million or so people, there are roughly 100 million cellphones in use.

Not only that but even newer technology like wireless Palm VII's and Blackberry pagers allow users to send and receive messages and e-mail cutting further into the need for payphones.

The trend is clear. Portable, wireless voice and data technology are taking over where the payphone industry dropped the ball. Sure there will always be a market for payphones, but it's a shrinking market. More and more customers are opting for the convenience, portability and lower cost of making calls on wireless phones which are getting cheaper all the time.

Can we blame the demise of the payphone business on cellphones and new wireless devices? Sure that's part of it. But the payphone business itself is also guilty, of suicide. I can't believe I am saying this, but I guess deregulation isn't always a good thing. It gave the new players in the payphone business enough rope to hang themselves. If they had more respect for customers, and actually took care of customers instead of abusing them, perhaps they'd still be a viable communications alternative, instead of the choice of last resort.

Payphones can still remain viable for a smaller universe of customers, but they have to change their ways. They have to take care of their customers and treat them with respect. They have to provide services other than voice. Services like Web access, e-mail access and messaging using touch screens and keyboards.

If not... the payphone business is dead.

ATTACHMENT 3

FEWER BROKEN PHONES AT 25 TOP SUBWAY STATIONS, SURVEY FINDS STILL, NEARLY ONE IN FIVE SUBWAY PHONES DON'T WORK

NY PIRG's Straphangers Campaign, December 18, 2000

There are fewer broken pay phones at the city's biggest subway stations than a year ago, according to a survey of 658 phones at the 25 top stations by the NYPIRG Straphangers Campaign.

The campaign found 18% of phones were not working in a survey of major subway stations conducted in October and November 2000, compared to 25% in a survey conducted in August 1999.

The survey also found that the best chance of finding a working phone was at the Main Street/Flushing station on the 7 line and 72nd Street/Broadway station on the1, 2 and 3 lines. Both had 100% of their phones working when surveyed.

The worst chance was at 86th and Lexington Avenue station on the 4,5, and 6 lines, where half the phones were found not to work.

"We congratulate Verizon for reducing broken phones in the past year, but we urge them to do better in the coming year," said Farouk Abdallah, an organizer for the Straphangers Campaign. Abdallah noted that the current contract between Bell Atlantic and MTA New York City Transit requires that 95% of all coin telephones "shall be fully operative and in service at all times."

The campaign surveyed 658 coin telephones at the 25 most-used subway stations. The survey was conducted from October 20th though November 21st, 2000.

Telephones were deemed non-functioning if the handset was missing or unusable; there was no dial tone; surveyors were unable to connect to each of 411, 0 and 555-1212; the coin slot was blocked; coins deposited did not register; or the telephone would not return a coin if no call was connected.

A monthly audit conducted by a private company commissioned by the MTA found that 18.5% of telephones had "service-affecting troubles" during July and August 2000 combined.

The latest survey by MTA New York City Transit found that 91% of phones were in "working order" in the period from April to June 2000. But the transit agency survey tests only whether the handset is undamaged and if an 800 number works, not what happens when a quarter is used.

ATTACHMENT 4

VERIZON RINGS UP DEAL FOR PAY PHONE ADS

Washington Business Journal Business

Greg A. Lohr   Staff Reporter

A new company in Rockville with old ties to the pay phone industry took two big steps this month toward creating a national network for advertising on public phones.

Ads On Target spoke Aug. 17 with Verizon officials to begin cementing **a** partnership. Although the companies have yet to decide exactly how many Verizon pay phones Ads On Target will have access to, the deal gives the fledgling ad business a huge boost in reach and credibility. The company -- a recently incorporated offshoot of 10-year-old pay phone company Robin technologies -- took its second big step Aug. 20, when it signed a similar agreement with Cincinnati Bell. Ads On Target also has talked with executives at Qwest and BellSouth. Ads On Target, like a few similar companies, serves as a middleman between pay phone owners such as Verizon and advertisers across the country.

In this case, Ads On Target will find interested advertisers, then give Verizon a percentage of the ad revenue. Each phone can hold up to three ads. Ads On Target charges $90 to $150 per ad, per month.

Verizon (http://www.verizon.com) owns half a million U.S. pay phones -- 7,000 in D.C. alone. Combined with agreements with smaller pay phone companies, the Verizon deal gives Ads On Target the potential to put ads on half of the nation's 2 million pay phones. "Six months from now, we'll have more ads up than any other company," says Mason Harris, founder of Ads On Target (http://www.adsonphones.com).

Long time coming

Pay phone advertising is an old idea that is finally blooming. Phone companies see ads as a source of revenue at a time when the widespread use of cell phones has crippled their pay phones business. And pay phones offer advertisers a way to reach remaining phone users and passers-by. "There's been a lot of promise and discussion about advertising at pay phones for a long time," says Paul Francischetti, Verizon's vice president of marketing and business development in Silver Spring. "It's companies like Ads On Target that are attempting to spur the market."

New York-based TDI (http://www.tdiworldwide.com), which supplies the ad frames for Metro, developed pay phone advertising in New York and Southern California. But until recently there's been little progress toward establishing a nationwide program. Competition in the wings Like Ads On Target, Fairfax-based APCC Services wants to take pay phone advertising national. APCC is the for-profit subsidiary of a pay phone industry group, the American Public Communications Council. Unlike Ads On Target, APCC (http://www.apccservices.net) only secures access to pay phones, while its Atlanta partner, National Public Communications Media, works with advertisers. And while Ads On Target puts ads on phone faceplates and in framed posters on the sides of phones, APCC uses a graffiti-resistant, peel-and-stick film cut to fit pay phones. "Ads On Target is attempting to build their database and inventory, as are we," says Vincent Sandusky, president of the pay phones council. "We're not trying to drive Ads On Target out of business. We want as many ads out there as possible so more advertisers recognize this is a viable option."

Neil Kopit already sees it that way. Kopit's company, Criswell Automotive and Power Sports in Gaithersburg, is working with Ads On Target to advertise its Kia line of cars on 141 pay phones in the D.C. area. "They're little mini-billboards, and you can really target the people you want to reach," says Kopit, director of marketing and advertising for Criswell (http://www.criswellauto.com). "I'm very pleased so far." E-mail: glohr@bizjournals.com Phone: 703/312-8344

ATTACHMENT 5

PayStar Signs LOI With NW Pay Telephone and Multimedia Company

Business Wire

February 26, 2001, Monday
DATELINE: LODI, Calif., Feb. 26, 2001

PayStar Communications Corporation (OTC:BB:PYST), a Nevada Corporation, announced today the signing of a Letter of Intent and Interim Agreement with Telad International, Inc., a Portland, Oregon based payphone/internet kiosk communications company.

According to William D. Yotty, PayStar Chairman, "We have been actively seeking to expand our Telecom presence in the Northwestern United States. This acquisition gains PayStar access to nearly 1,000 payphone locations. PayStar will immediately begin marketing all financial and Telecom services currently offered by PayStar to each location. Additionally Telad brings over $2,000,000 in new revenues to PayStar."

Telad has successfully operated hundreds of public payphones in the Portland metro area and throughout western Oregon and southwest Washington. Telad manufactures back-lit advertising panels to retrofit existing payphone enclosures and will enhance PayStar's Multimedia Division.

Recently Telad expanded its services by placing and operating public Internet access kiosks. C. W. (Chuck) Jones, President of Telad, stated that "New millennium technology and software has allowed Telad to sign contracts with several local, regional and national companies to place kiosk equipment in service. This will greatly improve PayStar's Internet Kiosk Division revenues."

PayStar's 2001 projected pay telephone growth includes 6,000 new locations, bringing total locations to over 10,000. PayStar's exploding network of telecom products and financial services is a vital part of the Company's strategy to improve relationships with the owners of each retail establishment. PayStar will offer each location owner additional revenue products such as prepaid phonecards, Visa/Mastercard services and cashless ATM units.

About PayStar

PayStar Communications Corporation, the premier distributor of telecom and financial services to retail merchants, currently owns and operates eight fully integrated divisions throughout the United States. These divisions consist of the ownership, operation, and management of private pay telephones, Cashless ATMs, and wireless bankcard machines, long distance voice and data services, Internet Kiosks, multi-media advertising and a host of Prepaid Services. PayStar is the premier location service provider (LSP) to retail merchants nationwide.

This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of known and unknown risks and uncertainties that may cause the company's actual results or outcomes to be materially different from those anticipated and discussed herein. These include the company's historic lack of profitability, end-use customers' acceptance and actual demand, which may differ significantly from expectations, the need for the company to manage its growth, the need to raise funds for operations, and other risks with the regulation of the telecommunications industry.

For more information, call PayStar at 888-769-7827 or visit their website at www.paystar.com.

CONTACT: PayStar Communications Corporation
Harry T. Martin, 209/339-0483
hmartin£paystar.com

URL: http://www.businesswire.com

ELCOTEL SECURES UNIVERSAL PRESENCE AT JFK AND LAGUARDIA AIRPORTS WITH 600 GRAPEVINE TERMINALS; NEW MEDIA FOR ADVERTISERS TO REACH TRAVELERS

May 23, 2001

Elcotel, Inc. (Nasdaq: ECTL), a leader in the public communications market, has partnered with a major telecommunications provider in launching an additional 500 Grapevine terminals to its already established 100 terminals at two of the nation's busiest airports, New York's JFK and LaGuardia. The Grapevine combines traditional payphone features with sponsored content and advertising, and personalized information available to consumers. All Grapevine terminals will be placed in high-profile, high traffic areas in both airports. An estimated 91 terminals are in the new, state-of-the-art, International Terminal at JFK. All installations are scheduled to be completed by June 30, 2001.

By placing the terminals within the New York area, the nation's premier advertising community can use Grapevine to reach business and leisure travelers while they're at the airport checking messages, making new reservations or looking for special offers. Both LaGuardia and JFK are ranked in the top 25 of the nations busiest airports, servicing a combined total of over 51 million travelers.

Grapevine, the first non-PC, wired Internet appliance, combines traditional calling capabilities of public phones with sponsored content and advertising, e-commerce capabilities, e-mail, and personalized information services supported by Elcotel Business Services, the Application Service Provider. The Grapevine currently carries advertising from a variety of national companies, including Sharper Image and Hyatt Hotels.

"This is a fantastic opportunity for Elcotel and its partner to provide advanced Internet driven services to the public while generating additional revenue streams through advertising and e-commerce transactions," said Dan Fragen, Vice President of Worldwide Sales for Elcotel, Inc. "This deployment into such prominent locations continues to demonstrate the increasing value of Grapevine to consumers, advertisers and our customers, the providers of public communications services."

Elcotel, Inc., (Nasdaq: ECTL) based in Sarasota, Florida, is a leader in providing public access telecommunications networks and management services for both domestic and international wireline and wireless communication networks. Visit Elcotel's corporate website at www.elcotel.com.

This press release may include statements that constitute "forward- looking" statements, usually containing the words "believe," "estimate," "expect" or similar expressions. These statements are pursuant to the safe harbor provisions of the Private Securities Litigation Reform act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the

Company's products in the marketplace, new product introductions and acceptance, adverse regulatory action affecting the Company and the Company's customers, competition, obsolescence of the Company's products, and other uncertainties detailed in the Company's periodic filings with the Security and Exchange Commission. All forward-looking statements in this press release are intentions and anticipations as of the date of this release. Such information may change or become invalid after the date of this release and by making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this release.

hhttp://tbutton.prnewswire.com/prn/11690X53817531

SOURCE Elcotel, Inc.

CONTACT: Dan Fragen, Elcotel, Inc., 941-758-0389

URL: http://www.prnewswire.com

PR Newswire, Source Elcotel, Inc.

ATTACHMENT 6

DAVEL COMMUNICATIONS REPORTS SECOND QUARTER RESULTS

CLEVELAND, Aug. 14, 2002 /PRNewswire-FirstCall/ --

Davel Communications (OTC Bulletin Board: DAVL), the nation's largest independent provider of public pay telephone services, today announced results for the second quarter ended June 30, 2002. The Company reported a net loss of $6.5 million, or $0.58 per share, basic and diluted, which is a reduction of 36.1% from the net loss of $10.2 million or $0.91 per share, basic and diluted for the second quarter of 2001.

Total revenue in the second quarter ended June 30, 2002 decreased 25.9% to $17.4 million, compared to $23.5 million for the comparable quarter last year. The decrease is the result of the Company's continued strategic removal of low margin phones and lower call volumes due to increased competition from wireless services. Coin call revenue declined 17.1% to $13.1 million from $15.8 million for the second quarter of 2001. Non-coin revenue declined 44.2% to $4.3 million from $7.7 million for the same period last year. The number of average payphones per month declined to approximately 50,000 for the period ended June 30, 2002 from approximately 64,000 for the quarter ended June 30, 2001. The decrease in phone count is the result of the Company's ongoing strategy to remove low margin phones and from lower call volumes as a result of increased competition from wireless communications.

The Company's direct net costs, consisting primarily of telephone charges, commissions, service, maintenance and network costs decreased 31.1% to $12.5 million from $18.6 million incurred in the second quarter of 2001. The decrease was primarily the result of the removal of low margin telephones, the receipt of $0.7 million of refunds relating to prior years' telephone charges, management's ability to renegotiate location contracts with lower commission rates, and cost savings in field operations.

Selling, general and administrative costs were $2.0 million for the quarter, compared to $3.2 million for the prior year's quarter. This reduction was primarily due to a reduction in salaries and salary-related expenses, and from a reduction in professional fees.

Six Months Ended June 30, 2002

Total revenue for the first half of 2002 declined 25.8% to $34.7 million from $46.7 million for the first six months of 2001. Coin call revenue decreased 19.3% in the first six months of 2002 to $25.3 million from $31.4 million for the same period last year. Non-coin call revenue fell 39.1% to $9.3 million in the six months ended June 30, 2002 from $15.3 million for the comparable period last year. The reduction in phone count is a result of both the Company's low revenue phone removal program and normal customer attrition.

Direct costs for the first half totaled $25.3 million versus $39.1 million for the first half of 2001. The decrease was primarily the result of the removal of low revenue telephones, the receipt of $1.3 million of refunds relating to prior years' telephone charges, management's ability to renegotiate location contracts with lower commission rates, and cost savings in field operations.

Selling, general and administrative expenses declined 24.6% to $4.7 million for the six-month period from $6.3 million for the prior year period. The decrease was primarily attributable to the reduction in salaries and salary-related expenses, and from a reduction in professional fees.

Recent Developments

On July 24, 2002, Davel Communications and PhoneTel Technologies announced that the merger transaction between the two companies had been completed and the final consolidation of their businesses had begun. Under the Agreement and Plan of Reorganization and Merger, PhoneTel became a wholly owned subsidiary of Davel. Concurrent with the closing of the merger, the combined companies exchanged approximately $254.0 million of debt outstanding under their existing credit facilities for shares of common stock equaling approximately 91% of Davel's outstanding equity after the merger, on a fully diluted basis, and entered into an Amended, Restated and Consolidated Credit Agreement to replace and combine their existing junior credit facilities. PhoneTel's and Davel's remaining debt under the Amended, Restated and Consolidated Credit Agreement totals $100 million.

John D. Chichester, Chief Executive Officer of Davel, said, "With today's release of Davel's quarterly earnings, I am pleased to report that the Company has continued to narrow its losses both sequentially and year-over-year. The Company remains focused on key cost reduction initiatives, consistent with our strategic plans and current market conditions. We are also encouraged by the positive impact generated from our "low revenue" phone removal program, which helped stabilize Davel's average per phone/month coin revenues during the period. With the Davel/PhoneTel merger transaction now complete, we are taking all necessary steps to assure the prompt and full realization of the significant synergies presented by this business combination. Based on the talent and dedication that our people bring to this consolidation, I am confident that we will meet our performance goals and fulfill our exciting potential as the nation's leading independent public communications provider."

Founded in 1979, Davel Communications, Inc. is the largest independent payphone provider in the United States. Headquartered in Cleveland Ohio, Davel operates in 48 states and the District of Columbia.

Materials included in this document contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. The factors that could cause actual results of Davel to differ materially, many of which are beyond the control of Davel include, but are not limited to, the following: (1) the businesses of Davel and PhoneTel may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; (2) expected benefits and synergies from the combination may not be realized within the expected time frame or at all; (3) revenues following the transaction may be lower than expected; (4) operating costs, customer loss and business disruption, including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers may be greater than expected following the transaction; (5) generating incremental growth in the customer base of the combined company may be more costly or difficult than expected; (6) the effects of legislative and regulatory changes; (7) the tax treatment of the recently completed merger and restructuring; (8) an inability to retain necessary authorizations from the FCC and state utility or telecommunications authorities; (9) an increase in competition from cellular phone and other wireless products and wireless service providers; (10) the introduction of new technologies and competitors into the telecommunications industry; (11) changes in labor, telephone line service, equipment and capital costs; (12) future acquisitions, strategic partnerships and divestitures; (13) general business and economic conditions; and (14) other risks described in the Annual Reports on Form 10-K for the year ended December 31, 2001 and other periodic reports and registration statements filed by Davel and PhoneTel with the Securities and Exchange Commission. You are urged to consider statements that include the words "may," "will," "would," "could," "should," "believes," "estimates," "projects," "potential," "expects," "plans," "anticipates," "intends," "continues," "forecast," "designed," "goal," or the negative of those words or other comparable words, to be uncertain and forward-looking. This cautionary statement applies to all forward-looking statements included in this document.

DAVEL COMMUNICATIONS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)
(In thousands, except share data)

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenues				
Coin calls	$13,107	$15,806	$25,329	$31,380
Non-coin calls	4,293	7,688	9,333	15,349
Total revenues	17,400	23,494	34,662	46,729
Costs and expenses				
Telephone charges	4,801	6,764	8,881	15,724
Commissions	3,022	6,509	6,908	11,773
Service, maintenance and network costs	4,652	5,376	9,498	11,597
Depreciation and amortization	4,789	4,621	9,758	9,254
Selling, general and administrative	1,951	3,194	4,723	6,267
Total operating costs and expenses	19,215	26,464	39,768	54,615

Operating loss	(1,815)	(2,970)	(5,106)	(7,886)
Interest expense, net	(4,712)	(7,191)	(9,266)	(15,002)
Other	43	10	47	109
Loss Before Income Taxes	$(6,484)	$(10,151)	$(14,325)	$(22,779)
Income tax expense	--	--	--	--
Net loss	$(6,484)	$(10,151)	$(14,325)	$(22,779)
Basic and diluted loss per share	$(0.58)	$(0.91)	$(1.28)	$(2.04)
Weighted average shares outstanding	11,169,440	11,169,522	11,169,440	11,169,531

DAVEL COMMUNICATIONS, INC. AND SUBSIDIARIES
SELECTED BALANCE SHEET DATA
(In thousands)

	June 30, 2002 (unaudited)	Dec. 31, 2001 (audited)
Total current assets	$16,854	$17,719
Property and equipment	38,945	47,448
Intangibles	1,319	1,983
Other assets	1,607	1,175
Total Assets	$58,725	$68,325
Total current liabilities	20,409	297,830
Long-term liabilities	282,447	308
Stockholders' deficit	(244,131)	(229,813)
Total Liabilities and Stockholders' Deficit	$58,725	$68,325

ATTACHMENT 7

PAYPHONE PRICES
Enclosures / Installation / Management Fees

Toll Call Services Pricing	as of 10-1-00
Payphone Enclosures (booth) and Mounting Hardware	
Indoor wall mount enclosure--economy	$125
Indoor wall mount enclosure--deluxe	$200 to $400
Outside wall mount enclosure--economy	$150
Outside pedestal mount enclosure--economy	$225
Outside pedestal mount enclosure--deluxe	$250 to $500
Payphone Installation (labor)	
Indoor wall mount enclosure and payphone	$100
Indoor wall mount enclosure and payphone	$150
Outside wall mount enclosure and payphone	$200
Outside pedestal mount enclosure and payphone	$250
Cost examples are without volume consideration.	
Payphone Management Services	
Per payphone per month (quantity dependent), Includes:	$13 to $22
Installation, Repair, and Collection Coordination	
Payphone equipment polling	
Collection reporting (each collection cycle)	
Monthly revenue reporting (coin, operator services, dial-around)	
Dial-around submission, payment and reporting	
Regulatory requirements support	
Advertising support	

Source: http://www.epayphones.net/Instencprice.htm